

Message Text

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ACTION ARA-10

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INFO AMEMBASSY CANBERRA

AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

UNCLAS BRASILIA 3602

FOLLOWING TELEGRAM DRAFTED BY AMCONGEN RIO, EMBASSY CONCURS.

E.O. 11652: N/A

TAGS: EMIN, BR

SUBJECT: CVRD PRESIDENT OUTLINES COMPANY EXPANSION PLANS

REF: CERP 0429

1. SUMMARY: IN APRIL 14 LUNCHEON ADDRESS AT CONGEN RIO
THE PRESIDENT
OF GOB-CONTROLLED COMPANHIA VALE DO RIO
DOCE (CVRD), FERNANDO REIS, OUTLINED COMPANY'S PLANS FOR
EXPANSION AND DIVERSIFICATION IN MINING, METALS, FERTILIZERS,
AND PULP AND PAPER. IN CONJUNCTION WITH NATIONAL AND
MULTINATIONAL JOINT VENTURE PARTNERS, CVRD HAS NEW PROJECTS
FOR THE NEXT FIVE YEARS WHICH CALL FOR \$10 BILLION OF CAPITAL
INVESTMENT. REIS STATED THE GOB'S INTENTION TO SURPASS AUSTRALIA
AS THE NUMBER ONE EXPORTER OF IRON ORE AND ASSERTED FURTHER
THAT THE GOB IS DETERMINED THAT THE GIANT CARAJAS PROJECT
WILL COME ON STREAM BY 1981. REIS PROJECTED IRON ORE EXPORTS
OF 100 MILLION METRIC TONS IN 1980 BY CVRD AND ITS ASSOCIATED
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COMPANIES AND 130 MILLION TONS IN 1985. BY COMPARISON, IN 1975

CVRD EXPORTED 54.1 MILLION TONS, INCLUDING 47.3 MILLION TONS FROM ITS OWN MINES, FROM WHICH IT GROSSED \$611 MILLION IN SALES. BRAZIL'S TOTAL IRGN ORE EXPORTS LAST YEAR REACHED 71.7 MILLION TONS AT AN FOB VALUE OF \$908 MILLION. END SUMMARY.

2. IN TALK BEFORE 110 REPRESENTATIVES OF BRAZIL'S LEADING MINING COMPANIES, GOB MINERALS AGENCIES AND MINING EQUIPMENT MANUFACTURERS, CVRD PRESIDENT FERNANDO ROQUETTE REIS DETAILED COMPANY'S EXPANSION AND DIVERSIFICATION PLANS FOR PROJECTS TO BE UNDERTAKEN THROUGH 1980. MAIN PROJECTS ARE IN AREAS OF IRON ORE; BAUXITE, ALUMINA, AND ALUMINUM; PHOSPHATE AND FERTILIZERS; MANGANESE; AND PULP AND PAPER. IN ADDITION, CVRD WILL CONTINUE TO CARRY OUT EXTENSIVE EXPLORATION PROGRAMS FOR NON-FERROUS MINERALS, PRINCIPALLY BAUXITE, COPPER, NICKEL, ZINC, TITANIUM, FERTILIZER MATERIAL AND RAW MATERIALS FOR THE STEEL INDUSTRY. REIS STATED THAT FOR THE NEXT FIVE YEARS CVRD HAS PROJECTS, ON ITS OWN AND IN CONJUNCTION WITH BRAZILIAN-OWNED AND MULTINATIONAL COMPANIES, CALLING FOR \$10 BILLION OF CAPITAL INVESTMENT, OF WHICH \$4.3 BILLION WILL COME FROM CVRD'S OWN SOURCES. NEARLY HALF OF THE INVESTMENT TOTAL WILL BE FOR IRON ORE PRODUCTION. REIS CITED THE FOLLOWING PRINCIPAL PROJECTS.

3. IRON ORE: REIS SAID BRAZIL INTENDS TO OVERTAKE AUSTRALIA AS THE WORLD'S LEADING EXPORTER OF IRON ORE. LAST YEAR BRAZIL SHIPPED ABROAD 71.7 MILLION TONS VALUED AT \$908 MILLION FOB, OF WHICH CVRD SHIPPED 54.1 MILLION TONS - 47.3 MILLION TONS FROM ITS OWN MINES AND 6.8 MILLION TONS FROM THE MINES OF FERTECO MINERACAO AND SAMITRI, FOR WHOM IT PROVIDES RAIL TRANSPORT TO THE COAST AND ONWARD OCEAN TRANSPORT. BY 1980 CVRD EXPECTS TO BE EXPORTING 100-105 MILLION TONS (INCLUDING SHIPMENTS OF SAITRI AND FERTECO). ASSUMING A UNIT PRICE OF \$20 PER TON, REIS STATED, 1980 CVRD SHIPMENTS WOULD EARN SOME \$2 BILLION. BY 1985, CVRD EXPECTS EXPORTS OF 130 MILLION TONS, ON ASSUMPTION THAT 30 MILLION TON FROM CARAJAS PROJECT WILL BE DESTINED FOR EXPORT AND 20 MILLION TONS FOR DOMESTIC MARKET. REIS STATED GOB'S DETERMINATION TO HAVE CARAJAS COME ON STREAM BY 1981. ALTHOUGH FINANCING THE \$2.7 BILLION PROJECT WILL NOT BE EASY, HE ASSERTED, EVERY EFFORT WILL BE MADE TO MEET THAT TARGET DATE. (FYI: REIS UNCLASSIFIED

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MENTIONED TO CONSUL GENERAL THAT COMPANY DIRECTOR EUCLIDES TRICHES WILL HEAD CVRD DELEGATION WHICH WILL TRAVEL TO U.S. SOON TO MEET WITH WORLD BANK AND U.S. STEEL OFFICIALS. TRICHES, WHO SERVES AS PRESIDENT OF AMAZONIA MINERACAO S.A., THE JOINT VENTURE COMPANY OWNED ON A 51/49 BASIS BY CVRD AND U.S. STEEL, IS A FORMER GOVERNOR OF RIO GRANDE DO SUL. END FYI.) REIS ALSO FIRMLY DECLARED CVRD POSITION THAT THE ONLY TECHNICALLY FEASIBLE MEANS OF TRANSPORT FROM CARAJAS MINE IN

PARA TO AN ATLANTIC OCEAN TERMINAL IS A RAILROAD TO ITAQUI IN MARANHÃO, DESPITE SOME OTHER VIEWS THAT A WATER ROUTE TO BELEM AREA WOULD BE PREFERABLE. REIS ALSO STATED THAT PRODUCTION OF CVRD'S CONCEICAO AND DOS CORREGOS MINES WILL BE INCREASED FROM CURRENT TOTAL OF 11 MILLION TPY TO 28 MILLION TPY BY 1978 AT AN INVESTMENT COST OF \$120 MILLION. PLANS ALSO ARE GOING FORWARD FOR COMPANY'S FIRST JOINT VENTURE WITH A BRAZILIAN-OWNED FIRM. ITAVALE (50/50 CVRD AND ACESITA, A GOB-CONTROLLED PRODUCER OF SPECIAL STEEL) WAS FORMED LAST YEAR TO DEVELOPE DEPOSITS HELD BY ACESITA IN MINAS GERAIS. DEVELOPMENT OF PERIQUITO MINE WILL BEGIN LATER THIS YEAR, WITH INITIAL PRODUCTION OF 7 MILLION TPY SCHEDULED TO COMMENCE IN 1978. REIS ALSO STATED THAT BY 1980 CVRD, IN ASSOCIATION WITH VARIOUS PARTNERS, WILL BE PRODUCING 29 MILLION TPY OF PELLETS, COMPARED TO 4.4 MILLION TONS LAST YEAR.

4. BAUXITE/ALUMINA/ALUMINUM: CVRD PRESIDENT SAID CONSTRUCTION HAS JUST BEGUN ON TROMBETAS BAUXITE PROJECT IN PARA, WHICH WILL PRODUCE 3.35 MILLION TPY FOR EXPORT STARTING IN 1978. COMPANY DEVELOPING THE PROJECT IS MINERACAO RIO DO NORTE, WHICH IS COMPOSED 41 PERCENT CVRD, 10 PERCENT BRAZIL'S PRIVATELY-OWNED CBA, AND 49 PERCENT SEVEN FOREIGN COMPANIES, INCLUDING REYNOLDS; TECHNICAL MANAGEMENT IS UNDER ALCAN. CAPITAL INVESTMENT IS \$280 MILLION. CVRD ON ITS OWN HAS ANOTHER LARGE BAUXITE RESERVE IN PARAGOMINAS REGION OF PARA WHICH IS STILL IN EVALUATION STAGE. REIS DID LITTLE MORE THAN MENTION IMMENSE ALBRAS ALUMINA/ALUMINUM PROJECT SCHEDULED FOR BELEM AREA IN JOINT VENTURE WITH JAPANESE PARTNERS. (FYI: ALBRAS PLANS CALL FOR PRODUCTION OF 320,000 TPY OF ALUMINUM WITH CAPITAL INVESTMENT OF NEARLY \$2 BILLION, BUT DISCUSSIONS WITH JAPANESE HAVE STALLED AS RESULT OF LATTER'S APPARENT RELUCTANCE TO MOVE TOWARD DEVELOPING THE PROJECT AT THIS TIME. END FYI.) REIS DID STATE, HOWEVER, THAT CONSTRUCTION WILL START SOON UNCLASSIFIED

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ON CVRD-CONTROLLED VALESUL SMELTER TO BE BUILT NEAR RIO DE JANEIRO. SMELTER WILL COMMENCE OPERATIONS WITHIN 30 MONTHS. UNTIL ALBRAS COMES ON STREAM, IT WILL UTILIZE IMPORTED ALUMINA TO PRODUCE 80,000 TPY OF ALUMINUM. REQUIRED INVESTMENT IS \$240 MILLION. (FYI: REIS MENTIONED PRIVATELY THAT FINAL AGREEMENT WITH REYNOLDS IS EXPECTED SOON- SEE ALSO RIO 1126. END FYI.)

5. PHOSPHATE-FERTILIZERS: CONSTRUCTION IS UNDERWAY ON CVRD'S \$250-MILLION VALEP PHOSPHATE PROJECT NEAR TAPIRA, MINAS GERAIS, WHICH WILL PRODUCE 900,000 TPY OF CONCENTRATE (37 PERCENT P2O5) BEGINNING IN 1978. AN ADDITIONAL \$240 MILLION IS BEING INVESTED BY ANOTHER CVRD SUBSIDIARY, VALEFERTIL, FOR A FERTILIZER PLANT LOCATED 128 KM. AWAY WHICH WILL PRODUCE 343,000 TPY OF TRIPLE SUPERPHOSPHATE AND 306,000 TPY OF MAP,

ALSO BEGINNING IN 1978.

6. MANGANESE: TWO WEEKS AGO PRESIDENT GEISEL ATTENDED THE SIGNING OF AN AGREEMENT IN MATO GROSSO FOR THE CREATION OF A NEW COMPANY, URUCUM MINERACAO S.A., IN WHICH ONE-THIRD EQUITY SHARES ARE HELD BY CVRD, METAMAT (STATE OF MATO GROSSO-OWNED MINERALS COMPANY) AND COMPANHIA VALE DO PARAOPÉBA (PRIVATELY-OWNED ALCINDO VIEIRA GROUP). THE COMPANY WILL BEGIN TO MINE MANGANESE IN THE CORUMBA AREA LATER THIS YEAR. REIS STATED THAT ALTHOUGH THE REGION HAS EXTENSIVE MANGANESE RESOURCES, TECHNICAL PROBLEMS (HIGH ALKALIES AND PHOSPHORUS) AND TRANSPORT PROBLEMS WILL HAVE TO BE OVERCOME BEFORE THE DEPOSITS CAN BE FULLY DEVELOPED.

7. FORESTRY/PULP/PAPER: DURING NEXT 10 YEARS CVRD WILL PLANT 307,000 HECTARES OF FORESTS IN MINAS ERAIS, FOR FUTURE CELLULOSE AND PAPER INDUSTRIES. TO DATE, 153,000 HECTARES HAVE BEEN PLANTED. CENIBRA, A JOINT VENTURE BETWEEN CVRD AND JAPANESE PARTNERS, WILL INAUGURATE IN OCTOBER OF THIS YEAR ITS FIRST CELLULOSE PLANT, HAVING A 750 TONS/DAY CAPACITY AND BUILT AT COST OF \$200 MILLION. ALSO IN CONJUNCTION WITH JAPANESE, CVRD HAS FORMED FLONIBRA WHICH WILL PLANT FORESTS IN ESPÍRITO SANTO-BAHIA BORDER AREA WITH OBJECTIVE OF PRODUCING 3 MILLION TYPY OF CHIPS AND 800,000 TYPY OF CELLULOSE, REPRESENTING AN INVESTMENT OF \$870 MILLION.

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8. REIS CONCLUDED HIS TALK BY DECLARING THAT CVRD WELCOMES ADDITIONAL FOREIGN PARTNERS TO JOINTLY DEVELOP BRAZIL'S VAST MINERAL RESOURCES.

9. COMMENT: CVRD'S CURRENT PERFORMANCE AND FUTURE PLANS, AS OUTLINED BY COMPANY PRESIDENT REIS, ARE INDEED IMPRESSIVE. THERE SEEMS LITTLE DOUBT THAT CVRD WILL CONTINUE TO MOVE AGGRESSIVELY TOWARD DEVELOPING THE PROJECTS DESCRIBED ABOVE PLUS OTHERS AS THE HUGE FINANCIAL RESOURCES REQUIRED BECOME AVAILABLE, WHICH MAY BE SOMEWHAT LATER IN SOME CASES THAN THE ABOVE TIMETABLES INDICATE. IT SHOULD BE NOTED THAT IN ADDITION TO DR. REIS' IRON ORE EXPORT FORECAST FOR 1980 OF 100 MILLION TONS FOR CVRD, SAMITRI AND FERTECO, THE PROBABLE EXPORTS BY TWO OTHER PRODUCERS, MBR AND SAMARCO, WOULD ADD SOME 32 MILLION TONS, PUTTING BRAZIL'S TOTAL EXPORTS AT ABOUT 132 MILLION TONS OR NEARLY DOUBLE LAST YEAR'S SHIPMENTS. IN 1975 CVRD'S PURCHASES OF IMPORTED EQUIPMENT AMOUNTED TO \$28 MILLION, OR 19 PERCENT OF COMPANY'S TOTAL EQUIPMENT PURCHASES. THE GREAT BULK OF CVRD'S IMPORTED MINING EQUIPMENT CONTINUES TO COME FROM THE US.

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